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Under Secretary Armacost

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Following is an address by Michael H. Armacost, Under Secretary for Political Affairs, before the U.S.-Yugoslav Economic Council, Cavtat, Yugoslavia, June 2, 1986.

I am pleased to join your annual meeting. The council has done much to promote expanded trade between our two countries. Cavtat richly deserves its reputation as an exquisite location in a beautiful country. I am sure I speak for all the American guests present in thanking our Yugoslav hosts for your warm hospitality.

This council naturally devotes itself to the further development of trade. Your work also symbolizes a broader shared purpose: the efforts that two countries with different economic and social systems are making to strengthen their relationship and learn more about each other. The success of our efforts is closely connected to the vitality of our respective economies as well as to our responses to the global economic and political challenges we face.

Let me comment briefly on:

- U.S.-Yugoslav relations;
- The U.S. economic situation, global economic issues, and expanding U.S.-Yugoslav trade; and
- Our approach to broader issues bearing on our bilateral relationship.

Historical Perspectives

Less than a month ago, on the anniversary of V-E Day, Yugoslavia's dead of two world wars were honored in wreath-laying ceremonies at the tomb of Yugoslavia's unknown soldier. Designed by the great Croatian sculptor, Ivan Mestrovic, this dramatic mausoleum on top of Avala Mountain, near Belgrade, is flanked on all sides by huge marble statues of the various ethnic peoples of Yugoslavia. Silhouetted tall and defiant against the sky, these statues symbolize Yugoslavia's firm determination to defend its hard-won independence against any attacker.

Few countries have suffered as greatly at the hands of foreign invaders as has Yugoslavia. No country has resisted more heroically. And Yugoslavia has always been liberated by Yugoslav patriots themselves.

As Americans, we are proud to have been allied with Yugoslavia in both world wars. We are proud to have had a role in the creation of the modern nation of Yugoslavia after World War I. And we are pleased that, since the end of World War II, we have steadfastly supported Yugoslavia's independence, unity, and territorial integrity.

Our bilateral relationship has moved through a number of phases in the past 40 years. It is, today, comprehensive and fruitful. It has been marked by the exchange of high-level visits. During the Reagan Administration, Vice President Bush, Secretaries [of State and of Defense] Shultz and Weinberger, and the former Chairman of the Joint Chiefs of Staff, General Vessey, have visited this country. President of the Presidency Spiljak and Prime Minister Planinc have come to the United States.

We have very strong cultural, educational, and scientific exchanges. These have been bolstered by the Fulbright agreement we signed in 1964 and by our cooperative scientific research program, jointly funded at almost $4 million annually. These exchange programs with Yugoslavia are among the largest we have with any country in the world.

Our peoples also have longstanding ties. Some 2 million Americans in all regions and all walks of life trace their ethnic roots to Yugoslavia. The second largest Slovenian city in the world is Cleveland, Ohio; the current Governor of Minnesota, Rudi Perpich, is of Croatian descent. And increasing numbers of American tourists—more than 50,000 in 1985—are enjoying their holidays in your beautiful and interesting country, particularly your glorious Adriatic coast.

And, of course, our economic relations continue to grow. During 1985, our total bilateral trade reached $1.2 billion. Before dwelling at greater length on U.S.-Yugoslav trade ties, however, let me say a few words about the U.S. economic situation and about our global economic policies.

A Market-Oriented Approach

In today's interdependent world, where economic success depends upon rapid communications and highly motivated and productive labor forces, market-oriented economic policies are the key to

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sustained economic growth. The countries that have prospered in the last decade have shared a reliance on such policies. Their peoples work; they save; they invest; they export. Above all, these countries unleash the creative energies of their people.

These successful countries have relied primarily on markets to set interest rates and prices and have maintained appropriate exchange rates. They have encouraged private initiative, avoided excessive governmental regulation, and provided adequate incentives for productive investment. They have also avoided excessive government consumption.

Our own recent experience is well-known. In the late 1970s, our economy was plagued by "stagflation"—a combination of low overall economic growth and high inflation. High government consumption required high taxes, which reduced savings, removed incentives for productive investment, and produced a high rate of unemployment. President Reagan came to office convinced that a new approach was needed, and he proceeded quite quickly to reduce government expenditures, taxes, and governmental regulations.

The results of that approach are now evident.

- The American economy is in its fourth consecutive year of expansion.
- About 10 million new jobs have been created.
- Inflation is running at less than 4%, and interest rates are at their lowest levels in almost a decade.
- Prospects for continuing, buoyant growth this year and next are good.

In some areas, we clearly need to make more progress. Our Federal budget deficit is one area in which progress is particularly required. Interest rates are another. Though falling, they are still too high. Our trade deficit is a third. Last year, it reached $148 billion—more than enough to raise intense protectionist pressures in our Congress.

A number of hopeful global economic trends should help reduce this deficit, among them reduced oil prices, depreciation of the dollar, and strong economic growth in other industrialized countries. Nonetheless, we recognize the need to act vigorously to eliminate these weak spots in our economic performance.

We are encouraged by the fact that other countries—including Yugoslavia, with its unique brand of socialism—have also placed greater reliance on market-oriented policies. Following the passage and implementation of its long-term program of economic stabilization, Yugoslavia has made great strides toward rationalizing investment decisions, adjusting domestic interest rates sufficiently to take inflation into account, realigning the dinar realistically, and, above all, promoting an export-oriented policy.

As a result of these policies, significant progress in economic stabilization has occurred, although continued high inflation and unemployment still require some degree of austerity. At the beginning of 1983, Yugoslavia was running huge balance-of-payments deficits; it was on the brink of being unable to pay its foreign loans. Through strenuous efforts and a measure of economic hardship, you have managed to turn a 1982 hard currency, current account deficit of $1.6 billion into 3 years of successive surpluses.

This reversal of Yugoslavia's trade deficit has had a positive impact on your debt position. You have been able not only to remain current on your foreign debts but also to begin reducing your debt. You are one of the very few major debtor countries to do so. The recent signing of both commercial bank and official rescheduling agreements reflects increased confidence in Yugoslavia's economic performance. These agreements set the framework for Yugoslavia's debt rescheduling through 1988. In addition, for the first time since 1979, Yugoslavia will not have an IMF [International Monetary Fund] standby program but, rather, an enhanced surveillance arrangement. The United States, together with many other countries, is pleased to have helped provide appropriate financial assistance to Yugoslavia during this difficult adjustment period.

The recent Tokyo summit put support for developing country adjustment policies high on its agenda. Measures endorsed by the summit included Treasury Secretary Baker's "Program for Sustained Growth," an early and substantial eighth IDA [International Development Association] replenishment, and implementation of the IMF's new Structural Adjustment Facility. All these efforts recognize the need for both developed and developing nations to implement effective adjustment policies. Without reforms—such as the development of more efficient capital and equity markets; *rationalization and privatization of public* enterprises; liberalization of foreign trade and investment policy; and reduction of subsidies, price controls, and corruption—no amount of external financing can sustain growth.

An Open World Trading System

Beyond sound domestic economic policies, we believe economic growth depends on the maintenance of a free and open world trading system. History shows that periods of trade liberalization lead to increased economic growth. Unhampered trade promotes a mutually profitable international division of labor, enhances the potential real national product of all countries, and makes possible higher standards of living all around the world.

The international community has made enormous progress in reducing traditional trade barriers during the past 40 years. The Kennedy Round reduced tariffs in nonagricultural products by about 35%, and the 1979 Tokyo Round reduced tariffs, on the average, by 33%. These cuts contributed to the substantial increase in world trade that occurred during this same period. Between 1961 and 1984, world trade grew by 6% each year; world output by 4% each year.

All nations share a stake in maintaining and strengthening this trading system. We in the United States certainly do. In recent years, however, protectionist pressures have increased around the world. The strongly protectionist trade bill recently passed by the U.S. House of Representatives shows that even the American market, which we regard as the most open in the world, is not immune. Huge trade deficits and a perception that trade is not free and fair have fueled popular outcries for a legislative remedy.

The Reagan Administration does not believe protectionist measures are the answer to trade problems. Indeed, the President has pledged he will veto such legislation. Internationally, protectionism in one country risks fueling protectionism in other countries—to the eventual disadvantage of all. Domestically, trade restrictions will only raise the cost of production and the cost of living. In the end, such measures will not save jobs.

Major efforts are required to strengthen and preserve the world trading system. All countries will need to join in effective negotiations to dismantle unfair trade barriers, eliminate subsidies and other unfair trade practices, open markets even

further, and strengthen the General Agreement on Tariffs and Trade (GATT).

The Tokyo summit agreed on a number of measures to safeguard the open trading system and prospects for future world growth. To address the underlying causes of trade imbalances, it agreed on measures to improve coordination of economic policies among the seven summit nations and to promote stronger and more balanced growth and greater exchange rate stability.

To preserve the trading system, the summit strongly supported the early launching of a comprehensive new round of multilateral trade negotiations in the GATT. Comprehensive negotiations are needed to resolve traditional issues of market access of agriculture as well as to address new issues such as services, intellectual property rights, and investment.

Such negotiations can provide substantial benefits to countries like Yugoslavia. Yugoslavia has a very important service sector—namely, tourism—a keen interest in attracting new foreign investment in joint ventures, and a formidable ability to incorporate Western technology into Yugoslav enterprises.

We look forward to regular consultations as preparations for the new GATT round proceed.

Expanding U.S.-Yugoslav Bilateral Trade

Bilateral trade is an important component of our bilateral relationship. To facilitate this trade and to strengthen the Yugoslav economy, the United States has taken an active role in financial support for Yugoslavia since 1983. A $1 billion Eximbank [Export-Import Bank] program in Yugoslavia supports U.S. exports of passenger aircraft, nuclear power technology, and many other kinds of equipment. Likewise, the Commodity Credit Corporation has announced $100 million in fiscal year 1986 credit guarantees for Yugoslav purchase of U.S. agricultural products.

President Reagan reaffirmed our support for increased trade during the visit of your Prime Minister to Washington in May 1985, as did Secretary Shultz when he visited Belgrade last December. Though the general trend has been positive, exports in both directions can still increase significantly.

The U.S. market offers Yugoslavia great potential. Expansion into this market requires skillful marketing, high quality control, and effective servicing. These are all skills we have encouraged our Yugoslav trading partners to develop over the years. And the prospects are encouraging—for example, the strategy for marketing Yugoslav automobiles in the United States combines Yugoslavia's comparative economic advantage in labor and industrial production with U.S. marketing know-how.

The presence today of many American businessmen and bankers indicates the significant potential for expanding U.S. exports to Yugoslavia. Joint ventures offer good potential for increasing exports in both directions and to third markets. We are delighted that, since the 1984 Yugoslav joint venture law was enacted, 11 U.S. firms have signed joint venture agreements with Yugoslav enterprises. We hope the Yugoslav Government will seriously consider additional changes in the law, as suggested by this council, to stimulate still further agreements.

Energy is a potentially promising sector. U.S. industry is a world leader in the development and transfer of peaceful nuclear technology. Our government fully supports U.S. industry's further involvement in the Yugoslav nuclear power program, including its proposed second nuclear power project at Prevlaka. Under the goverrmment-to-government umbrella for peaceful nuclear cooperation, U.S. industry is willing to transfer technology and know-how to improve Yugoslav industrial capabilities.

We also welcome opportunities to improve consultation about nuclear safety. The Chernobyl nuclear accident underscored both the importance of nuclear power and the responsibility of user nations to adopt adequate safety precautions and provide prompt and detailed information on accidents. The United States and other countries have called on all nations to improve their cooperation in the International Atomic Energy Agency.

Our opportunities for expanded trade relations should stimulate our mutual resolve to overcome any trade frictions that exist between us. We have worked together in the past; we will work together now. In 1985, we confronted a number of bilateral trade disputes. Through constructive negotiation, we worked in a spirit of mutual compromise to extend and enlarge the bilateral textile and apparel agreement and establish a 5-year voluntary restraint agreement on steel.

American concerns for intellectual property rights and market access and Yugoslav desire to maintain beneficiary status under the U.S. generalized system of preferences (GSP) are current issues between us. As with other countries, U.S. industry has made formal complaints about certain Yugoslav laws and practices relating to market access and the protection of intellectual property. As required by the U.S. 1984 Trade Act, President Reagan is now reviewing relevant practices of all GSP beneficiary countries. As the ninth largest GSP user, Yugoslavia has argued that continued GSP beneficiary status is important to its ability to expand exports to the United States. We have recently held consultations on these difficult issues and are confident further progress can be made in further talks.

Scourge of International Terrorism

A common element of the economic policies I have discussed is openness: openness in our system of trade, openness in discussion of growth and debt issues, and openness in individual transactions between trade partners.

The institutional barriers to openness in our economic relations—whether national, social, or cultural in nature—are formidable, but they are surmountable. In recent years, we have discovered a new barrier to openness. I refer to the scourge of international terrorism. Neither the United States nor Yugoslavia has been a stranger of this evil. Indeed, nationals of both our countries have been victims of it.

The frequency, variety, and geographic scope of terrorist activity are growing. Our European and Mediterranean friends and allies are increasingly bearing the brunt of terrorist attack. More vulnerable targets are being selected. And the heavy economic costs of deterring terrorism are becoming more and more apparent. The high cancellation rates on some airline routes is a vivid sign that tourism and tourist-related industries have been dealt a severe economic blow. We trust it is a transitory blow.

The support that some states now brazenly lend terrorists is a new phenomenon. When states offer terrorists financial, rhetorical, intelligence, and logistical support, they encourage the violation of every rule of civilized behavior. When states permit terrorists to strike innocent citizens while hiding behind the diplomatic protections of the Vienna convention, they permit those privileges and immunities to be used for acts in fundamental contradiction to their intent.

We are determined to fight terrorism with all the means at our disposal. We think other nations increasingly share that resolve.

The Tokyo summit statement on international terrorism codified agreement on specific measures aimed at terrorists and states that support them and identified Libya as one such state. Our government condemns the actions of any state that supports international terrorists directly or indirectly. We call on all states to join in refusing terrorists transit and in denying them safe haven or access to military training with terrorist applications. Our governments have held useful discussions on ways to improve our bilateral cooperation against terrorism; we look forward to further productive consultations.

Conclusion

Let me conclude where I began—with an observation on the new global political and economic challenges we face. Political and social changes, spurred by the onrush of scientific and technological developments, are shifting the balance of wealth and power among nations. We live in an "information age." We think this favors market-oriented societies which provide the incentives and flexibility necessary to unleash the creative productivity of their people. It offers great opportunities for societies to engage in a mutually beneficial flow of goods, services, and ideas. It puts societies, open to each other and open to the world, in a position to choose the course and path best suited to their interests and circumstances.

We recognize the unique position Yugoslavia holds by virtue of its geography and history. Yugoslavia's independence and nonalignment decisively shape our bilateral relationship. Independence has been Yugoslavia's tradition; it will also be your future. However, that independence also depends, in large measure, on the maintenance of the strategic balance between East and West. As a key nonaligned country, Yugoslavia has an important role to play in helping to maintain the integrity of the Nonaligned Movement. Such a role contributes to East-West stability and to world peace.

We have been heartened by the expansion of our bilateral relations over the past 4 years. We look forward with confidence to building on this sound basis as we work closely with the new Yugoslav Government headed by President of the Federal Executive Council Branko Mikulic.

Your presence today testifies to the breadth and benefits of the relationship between our two countries. We trust the U.S.-Yugoslav Economic Council and the Yugoslav Chamber of the Economy will continue to complement the efforts of our two governments. We wish you well in identifying and realizing new economic ventures. Speaking for the U.S. Government, I can assure you that we will do all in our power to facilitate them. ■

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